

The Home Owners Loan Corporation

JAMES WHITE SHOCKNESSY

Counsel, Home Owners' Loan Corporation, Ohio District

It is not my intention in this article to write a dissertation on economic, sociological, or political theory as interpreted under the New Deal, but rather to discuss the important function which is being served by the governmental instrumentality with which I am associated in promoting a great program of economic recovery.

Soon after Mr. Roosevelt assumed his office as President of the United States, in his message to the Congress on April 13, 1933, he spoke as follows:

"As a further and urgently necessary step in the program to promote economic recovery, I ask the Congress for legislation to protect small home owners from foreclosure and to relieve them of a portion of the burden of excessive interest and principal payments incurred during the period of higher values and higher earning power. Implicit in the legislation which I am suggesting to you is a declaration of national policy. This policy is that the broad interests of the Nation require that special safeguards should be thrown around home ownership as guaranty of social and economic stability, and that to protect home owners from inequitable enforced liquidation, in a time of general distress, is a proper concern of the Government."

Pursuant to his recommendation, an Act of Congress approved June 13, 1933, created the Home Owners' Loan Corporation to bring direct relief to home owners. Its principal purpose is to refinance mortgages of urban home owners faced with foreclosure.

To be eligible for refinancing, a property must be a dwelling for not more than four families, worth not more than \$20,000.00, and must be the owner's home or homestead. The maximum loan permitted under the law is 80 per cent of the appraised value of the property, or \$14,000.00, whichever is smaller.

To accomplish its purposes the Corporation was given an appropriation of \$200,000,000.00 in cash and was authorized

to issue bonds for a total of \$2,000,000,000.00 to be exchanged for mortgages or sold to obtain funds. The statute as originally passed was amended April 27, 1934, so as to increase the authorized bond issue to \$3,000,000,000.00. Home Owners' Loan Corporation bonds totaling \$100,000,000.00 have been assigned to provide capital for the Federal Savings and Loan Insurance Corporation. The Corporation is also authorized to buy bonds and debentures of the Federal Home Loan Banks in any amount up to \$50,000,000.00.

If the home owner is in distress and in danger of foreclosure through no fault of his own, and if the value of his home property offered as security does not exceed \$20,000.00, and if the bonds of the Corporation are acceptable to the lienholder, then 80 per cent of the appraised value, but not in excess of \$14,000.00, is available for the refinancing, provided the lien was in existence prior to the date of the enactment of the Statute, and the home owner is a satisfactory credit risk. The Corporation was further empowered to make loans in cash up to 40 per cent of the appraised value under the same conditions precedent, and up to 50 per cent of the appraised value in cash for taxes, repairs, etc., where there is no outstanding lien.

Created at a time when many economic theories, including the ruthless policy of *laissez faire*, were discredited, when the entire real estate structure was in the most parlous condition it had ever found itself on this continent and values and earning power of property stood at devastating depths, the Home Owners' Loan Corporation was designed to strengthen and stabilize that great field of industry, which reflects inherently the Nation's prosperity or its economic difficulties, the home buying and home building market. It was designed, also, to aid in restoring the normal and proper flow of private investment funds into urban home loans through the traditional and established channels of savings banks, insurance companies, building and loan associations and individual lenders.

Events of the past few years in all fields of finance naturally affected the fact that home ownership remains a dominant ambition in the lives of most all Americans, two million of whom annually become of age and begin to look forward to the day, when they may purchase homes of their own.

These fundamental human instincts have, in the darkest hours of the past few years, made conscientious men and women

accept unprecedented sacrifices in order to meet their contracts on mortgage payments and to retain their homes. The Home Owners' Loan Corporation now makes it possible for home owners who are unable to meet their current mortgage obligations otherwise to lighten their immediate burden by exchanging a short term debt for a commitment extending over a period of many years, and bearing a moderate rate of interest.

In the transition period from the outmoded rugged individualism to progressively united social and economic reconstruction the home owners of the Nation had been left without any solace or encouragement until the advent of our Corporation. While the direct purpose in creating the Home Owners' Loan Corporation was the preservation of homes, the indirect result of its creation has been to stabilize values, to revive languishing financial institutions, which were being frozen to death by their home mortgages, and to save millions of depositors in the Nation from financial catastrophes more numerous than had already occurred. As of January 18, 1935, the Home Owners' Loan Corporation have closed approximately 760,000 loans to deserving eligible home owners in an aggregate amount of \$2,300,000,000.00. About 15 per cent of this total, approximately \$360,000,000.00, was received by banks, building and loan associations, mortgage companies and other institutions in liquidation, in which nearly \$670,000,000.00 of home mortgages were held.

In a statement issued January 28, 1935, John H. Fahey, Chairman of the Home Owners' Loan Corporation, remarked:

"The refinancing of mortgages in insolvent institutions not only saved the homes for their owners, but resulted in a disbursement to depositors in the banks, a large proportion of whom were small depositors. Most of the loans taken by the Wholesale Department from the receivers of these banks were subject to some reduction in order to bring them within the limits the Corporation could lend."

The benefits thus obtained both for the home owner and the mortgage institutions are incalculable. It is to be observed that the home owner in many instances after concluding his refinancing with the Home Owners' Loan Corporation finds himself with less debt than he formerly owed, and in all instances finds himself in a better financial position than when he appealed to the Corporation, usually in a position to carry his debt burden satisfactorily. In Ohio alone through March 1, 1935,

\$254,066,194.00 had been made available to eligible home owners. Of this vast amount approximately 6 per cent was paid to the tax collecting officials of the State for taxes and assessments. This direct benefit in the State of Ohio accrued not only to the home owners, to the mortgage companies and the financial institutions, but also to the tax-paying public and to the State itself.

Municipalities which, prior to the creation of the Home Owners' Loan Corporation, were temporarily insolvent, without funds for school teachers and public works and activity necessary in sustaining the community, have reaped such benefits from the operation of the Home Owners' Loan Corporation in Ohio as now to find themselves in a comparatively solvent state, readily able to carry on their municipal activity.

Another 2 per cent of the grant total has been used in repairing and reconditioning property throughout the State. The direct benefit thus conferred upon the building trades, as well as upon material men, is obvious.

The activity of the Corporation as an instrumentality of the Government in the mortgage and building field cannot in any respect be condemned as an insinuation of the Government into private business. Our *apologia* for the Government's being in the mortgage business and the building trade field lies in the inability of private business and private financing to cope with the mortgage foreclosure emergency, which developed with the world deflation. The Home Owners' Loan Corporation has been most studious in refusing applications for loans which could be refinanced by private business. The only applications which the Corporation has ever entertained are applications which are either unsatisfactory to private business or which private business is unable to carry. It is our fondest hope that by relieving private business of the burden of its distressed mortgages it may more quickly recuperate and again assume its place in the mortgage lending field. It must be remembered at all times that the refinancing which its being done through the Home Owners' Loan Corporation cannot be construed as an injection of new money, but rather, it is an exchange of one kind of credit for another. Whenever new construction is to be made, or financing of new purchases, it is our expectation that private business will be able to handle the transaction since it

has been relieved of such a large portion of the mortgages it was formerly carrying.

A further benefit which is being conferred upon business through the operation of the Home Owners' Loan Corporation is the raising of the standard of living and the standards of construction through the Reconditioning Division. The Chairman of the Federal Home Loan Bank Board recently spoke as follows in the matter:

"The reconditioning operations of the Corporation will not be permitted to serve for experiments with untested ideas in architecture, building materials or construction. One object of the reconditioning work of the Corporation is to set protective standards which will be an incentive to the millions of home owners who are not served by the Corporation to make their own homes more valuable and more enjoyable through the efficient expenditure of money for repairs and rehabilitation. The master specifications constitute a national guide book of approved materials and practices which can be adapted to all conditions and localities."

The activity of the Government in the lending field at this time in the manner considered is analogous and comparable to the activity of the Government in railway and shipping activity during wartime emergencies. The present emergency is of even greater proportion and more critical than the emergency which the Government was called upon to meet during the late War, when both the spirit and physical being of the nation were galvanized to extreme action, because it is more difficult to galvanize the spirits of people for activity to meet an economic emergency than it is to crystallize the spirit of the same people to repel an invasion, suppress an insurrection or wage a foreign war, and, therefore, I believe that the central Government itself is called upon to meet a peace time economic debacle with more vigor than a wartime emergency.